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The MORTGAGE BANKER

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FHA Aid for Older Houses

Here is a proposal for extending better FHA terms for the older houses; what's your idea of it?

ONE analysis of the mortgage business today might read something like this: There is a great abundance of funds seeking investment in mortgage loans. All investors—life companies, mutual savings banks, every type of investor—have funds they would put into mortgages if they could get them. This has created the keenest competition ever seen; and, as a result, borrowers are enjoying the lowest rates and the most favorable terms the business has ever known.

But what kind of mortgage loans? To the uninitiated it might appear that there are plenty of funds available for all mortgages but such is not the case. Funds aren't available for older properties in older locations in anything like the ratio they are available for newer houses in good locations. What's the answer?

In the current issue of *Tomorrow's Town*, published by the National Committee on Housing, Inc., L. A. McLean, president of the Southern Trust Company of Louisville and a past president of MBA, contributes the leading article in a symposium directed to the inquiry "should FHA insure mortgage loans on older residences on the same basis as new houses?"

Mr. McLean thinks it's a good idea and would go a long way in reducing obsolescence and stimulating the market for new properties. Here are some of his observations on the subject—and any MBA member who would like the complete discussion should write the MBA national office for a copy:

"This great, practically unlimited fund, seeking mortgage loans, is earmarked principally for the modern dwellings in the better locations. Relatively few dwellings are considered to be modern if more than fifteen years of age. What about the good old properties from fifteen to thirty-five years of age which represent the major part of the residential area of all our cities?

"How can those excess funds be diverted with reasonable safety into rehabilitation channels? I believe the answer lies in making it possible for FHA to insure mortgage loans on the fundamentally sound older dwellings on the same basis as applies to loans upon new homes. The relationship of percentage of loan to appraised value should be the same. The safety valve for elimination of any serious hazard would be the appraisal and term and the requirement of intelligent repairs as a prerequisite to the commitment.

"If the actuaries of FHA were to conclude from their wealth of experience that insurance of this class of mortgage loans would likely carry some added risk, then the cost of insurance should be inceased one-quarter percent or to whatever reasonable extent would provide safe underwriting—without creating any insurmountable obstacle to proper use of the credit facilities. Subsidized credit for the individual property owners would be neither desirable nor necessary."

Turning to another phase, McLean says: "How can money be enticed into investment for redevelopment purposes on a basis which would enable the investor to enjoy a fair interest return? Only by the employment of subsidy in some form. Few municipalities are in such financial condition as to be able to absorb the excess cost of assembly of their slum areas and few can afford to make such projects tax free for a long number of years. In New York State a subsidy for this purpose takes the form of exemption from any increase in taxes, over the amount assessed prior to redevelopment, for a period of twenty-five years. In that State that plan will undoubtedly work in some measure, but the conditions differ in other States and the same form of subsidy probably would not suffice everywhere to produce a sound investment. Most States would have to amend their constitutions to be in position to waive taxes in whole or in part and that is usually difficult to accomplish."

ARE YOU PLANNING TO ATTEND?

This is the last call for MBA's 1945 educational courses. By the time this issue appears, the Conference on Urban Mortgage Lending at New York University will be well underway, but there is still time to get your reservation in for the Mortgage Bankers Farm Seminar at Purdue University June 25 to 30.

Participating with Mr. McLean in the discussion are four others with varying reactions to the proposal.

Joseph Meyerhoff, treasurer of the National Association of Home Builders, approves and thinks that:

"Certainly a more liberal plan for financing of older houses for owner occupants is proper and desirable. A lower down payment, on the basis of 10 per cent on homes valued up to $6,000 or $7,000 and perhaps an even smaller down payment on homes valued below $4,500, is entirely reasonable. The term of the loan can undoubtedly be lengthened without affecting the security. The lower the monthly payments, the broader the market becomes —and therefore, the less fluctuation in values will result under changing economic conditions."

George S. Van Schaick, vice president of the New York Life Insurance Company, has some reservations. He believes:

"The policy advocated by Mr. McLean in its general aspects would seem to need definite limitations if adopted. Slum clearance and the war against blight have a definite place in constructive real estate policy. Both are of highest importance. Both are fraught with difficulties. It is quite clear that any policy which would slow the movement for redevelopment of cities on a large scale would be unwise. The present proposal must be considered in reference to the greatest public interest.

"The danger in the proposal lies in financing reconstruction or rehabilitation of properties in sections which really call for redevelopment on a large scale. It is obvious that much redevelopment might be slowed up or irreparably hindered if single or unrelated action in rehabilitation occurred in localities ripe for clearance and overall replanning.

"The safeguard would seem to lie in relating and confining such FHA financing of the rehabilitation of old structures to areas which fall into the pattern of overall planning as part of a master plan. Such financing should be conditioned on approval of the appropriate municipal authorities."

Ray B. Westerfield, professor of economics at Yale and president of a savings and loan association, said:

"The job of allaying obsolescence in urban property should not be loaded on the FHA. The FHA has shown too great a willingness to take on new jobs and objectives. Congress and the executive department of our government have laden it with such tasks. Instead of sticking meticulously and assiduously to the insurance of mortgage loans—the field that is proper to FHA and the one in which it could make a great contribution— the agency quickly took on the job of reforming the whole construction and mortgage-financing business; it became the strong arm of the Administration in an extensive housing program. During the war, FHA has served as the agent controlling the use of critical materials in housing and more recently has become the agent in passing on applications for GI loans. One may ardently hope that FHA will in the postwar period revert to its original objective and cease and desist from dipping into social reformations."

Paul E. Stark, realtor of Madison, Wis. and former president of the Nat'l Assn. of Real Estate Boards, says:

"I approve of a more liberal FHA financing policy for older residences. It would seem best, however, not to expect too great or too immediate results from such liberalization as could reasonably be obtained. In the first place, FHA is now insuring loans on existing structures and a fair percentage of homes are already eligible. Also, it would seem unreasonable to expect to get very enthusiastic support for early action. Almost any kind of loan can now be secured. Both seller and buyer seem quite happy about everything. Some individuals and financial institutions are being carried along by the enthusiasm of the day and may be lending unwisely but they are not worrying. The statements of other institutions indicate an overwhelming interest in Government's and triple A Securities and little or no concern about real estate loans, insured or uninsured. Still others are sure that FHA is already too deeply involved in a field that should be exclusively occupied by private enterprise.

L. A. Mc Lean

G. S. Van Schaick

"Realtors would probably approve but not too enthusiastically. FHA loans at best are expensive and take longer to negotiate. If 80-90 per cent loans for 20-25 years on older homes in poorer locations are to be insured, sound risk rating would mean stricter examinations of requirements for repairs and modernization, more careful qualifying of buyers, and perhaps lower appraisals. Rightfully or wrongfully, owners, buyers and realtors might fear the effect of these restrictions and delay on the sale of older properties and use insured loans only when compelled to.

"FHA would probably oppose such a move. While it has insisted upon the achievement of certain social objectives, it has always applied prompt restraint when there was danger of violating sound insurance practice. It would be difficult to persuade FHA to swerve from this conservatism.

"The American people should be grateful for the cautious approach which FHA has made to the new, vastly important and difficult problems which have confronted it since its organization. The splendid results achieved are well known and need not be repeated.

"Mr. McLean argues that having succeeded so well in a restricted field, FHA should now be ready with equal success to proceed into the field of still older homes and also add to its functions the achievement of the new objectives which he has listed.

"While we must do much more than insure loans on older homes in order to halt the course of blight, it does seem that much good should flow from a liberalized insuring policy.

"For instance, FHA should be able to establish sound appraisal methods for the benefit of the owners of and lenders on older homes. After all, FHA is a public agency and owes equal service to all owners and lenders. The collapse of mortgage securities during the late depression was brought about by bad appraising and lending practice in connection with both old and new structures.

Lending Must Remain Profitable

The Promise of the Future—Can We Muff It? asks the author who concludes we can; one way is by forcing interest rates down to an uneconomically low level

By DONALD B. WOODWARD

INTEREST rates have fallen to an unprecedentedly low level, and there are shrill demands for further reductions. An economic philosophy is abroad which condemns savings and thrift, and so outrages the instincts and the minds of the majority. Government employees—called bureaucrats if you don't like them—are putting their fingers into almost all activities. The fear of inflation disturbs the minds of most thinking people, and discussions of it drip from the printing presses like April showers. The future seems to many to present a dour face indeed.

These alarms make a market for the services of economists*—or anyone who can use at least some of the jargon of that profession.

Lenders operating in the small loan field boast that they can lend $100 to every person in a crowded subway car who wishes to borrow it, without any investigation, and receive repayment. The record for honoring obligations on home mortgages is tremendously impressive. The record for the payment of the most onerous taxes we have ever known is, despite some tax evasion by an unscrupulous few, remarkably good for the overwhelming majority of people. Virtually every family in the United States is providing for its future by regular life insurance premium payments and did so even throughout the depression. The operation of the Selective Service, of rationing, and a whole host of other onerous, tedious and uncomfortable precedures demonstrate the high morality of the majority. The fact is the mass of today's regulation and taxation and public and private obligations would fail immediately if it depended for its success upon enforcement.

The editor of The Mortgage Banker recalls the first anniversary of Pearl Harbor when he and the author of this article reported to Secretary of the Treasury Morgenthau on the results of a survey they had made in the Middle West on behalf of war bond sales. He was impressed by the keen intellect of the writer of these observations and thinks MBA members will be also. Mr. Woodward, who is research assistant to the president of The Mutual Life Insurance Company of New York, emphasizes here that those who are seeking to drive interest rates down to fantastically low levels do not see the whole pattern of their efforts—and, if they did, would probably stop to re-chart their course.

The sub-title of this discussion is "The Promise of the Future—Can We Muff It?" The simple, short, direct answer is, of course. Of course we can muff it. Of course we can fail to enjoy the pleasure of this delectable fruit which lies within our reach. Of course we can be foolish enough to make unworkable the finest automobile ever assembled which awaits at the door to carry us into Utopia. There are, as I see it, four great possibilites for us to muff the wonderful promise of the future.

The first of the muffing possibilities is that the country will follow the pied pipers of easy money, that an interest rate too low to permit continued economic progress will be established. The size of the public debt creates a strong argument for an aggressive public policy to make interest rates very low in order to minimize the interest charge on the federal budget.

Other borrowers also are demanding low interest rates, not least prominent among them being some groups concerned with housing. And there is an economic philosophy abroad, usually connected with the name of a famous British peer, which dolorously contends that if interest rates are not kept low and moved ever lower, society will surely suffocate in savings.

But if these special pleadings of borrowers and this dangerous philosophy

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* As for example the economist who recently said that "basic factors affecting interest on borrowed money suggest that it is almost certain that the rates for government securities will remain low for one or two decades, and that rates for other kinds of credit, such as mortgages, will come down towards the same level. Another result of low interest will surely be that those rates which have not closely followed the general downtrend will be forced in line. A specific example is probably the charge on mortgages. Farm mortgage costs are down only to 80 per cent of their 1920 level, while other long-term obligations are yielding today only 40 per cent, or a little more, of what they brought in that earlier year.

"The impact of the interest rate on business is often overrated by bankers. Its importance differs widely according to business lines. It is of relatively little consequence for most of the retailing trades, including restaurants, where turnover of goods is very rapid, which is another way of saying that a lot of business can be done with little capital. But in business lines with a high capital load the interest cost can be of far-reaching and even decisive influence.

"In housing 50 per cent of the costs are those of the capital, so that reduced interest rates are of first importance in stimulating construction. Investment goods industries are in a similar position.

"Labor has a vital stake in low interest. The classical economist used to say that 'if the interest rate rises, the real wage sinks; and if it falls, the real wage rises.'

" 'Risk capital,' and therefore new enterprise, gains from low interest. Corporate dividends, as a rule, must be higher than high-grade bond yields in order to attract investors. Therefore, if the return on bonds declines, the possibility of obtaining risk capital by selling shares of stock should rise not only proportionately but also progressively. Buyers would be ready to pay rising prices."

The observations in this foot-note were inserted by the editor and not by the author of the article. They seemed to be of interest because they are typical of arguments that are being heard more and more these days. An effective answer must be made, we think.

are heeded, and interest rates are depressed to too low a level, the very heart of economic progress may be stopped from functioning. That heart is the formation of capital, and capital is, on the one hand, the instrument through which ingenious technology moves to increase production, and, on the other, the element which gives us more and better comforts of housing and other durable consumption goods.

Furthermore, too low interest rates threaten the functioning of the great institutions which have serviced the growth and development of this country: the banking system, life insurance, the capital markets, the great endowment organizations for education, research and health. Interest rates can be depressed to a level where they do not provide the incentive for adequate savings and for the necessary amounts to cover expenses of operation of savings and financial institutions and to cover losses which are an inevitable accompaniment of the administration of funds.

Let us apply this to your own field. The funds which provide mortgage ~~loans~~ must be obtained by paying some return to savers, and, in addition, the rate of interest must cover the costs of operation and losses. The necessary payments to savers and amounts to cover expenses vary with differing institutions. Amounts necessary to cover losses have not been very extensively determined because the real estate business seems to have believed itself under the injunction given Lot's wife, never to look back to see results. But we know that there have been losses and sizeable ones. And when you contemplate the depreciation which resulted from rapid city decentralization in the past two decades and the depreciation due to improved technology and changing styles of buildings—and when you project these forces of depreciation with the possibility that decentralization, which was rapid in the last two decades, will be explosive in the next two decades and that technology and style changes, which have moved at a walk, may proceed at a gallop in the years to come—you surely cannot feel that a mere negligible allowance for loss is needed in the interest rate.

The second muffing possibility is that producers will try to overprice their products. Tendencies are observable for producers to try to fix prices which they consider fair and just. But prices which producers consider fair and just may be prices that consumers either cannot or will not pay. If our laundry cost is fixed at a point my wife feels to be too high, she will do it herself, and we will buy no laundry service. If costs of doing business are fixed at too high a level, business just won't be done. If building costs become disproportionate, the amount of building will simply shrink. The object of producers should be as it has been in the past, to find a cheaper way of providing a better product, instead of trying to impose upon little Nell Consumer a price that they want for doing things the easy way. I would urge that you put in your hat the message sent by British Prime Minister Canning to his representative at the Hague in 1830, when negotiations were in progress between England and Holland on a trade treaty. His message was a simple one:

"In matters of commerce, the fault of the Dutch
Is in offering too little, and asking too much."

I leave it to you whether the building business is a Dutchman, but I would remind you that there are not a few people who vigorously charge that it is.

The third great muffing possibility is that this country will continue its misguided pursuit of nationalism. Excessive nationalism over the years has focused every economic and political interest in the national government on the national state. It has made the state the aggrandizing representative in world affairs of the local producer and the local self-interest groups. It has tended to subordinate the market place which equilibrated supply and demand through peaceful haggling, and has set, instead, a state which dumps surplus products to the detriment of others, which imposes inordinate tariff walls against foreign producers, which fathers cartels which fix prices and regulate production in the interest of the producer instead of the consumer—and which backs all these arbitrary procedures by armed force.

The establishment of an international order, utilizing the division of labor and the international market place, together with the necessary de-emphasis of the nation state, will necessitate flexibility and change. If someone abroad can produce a better product cheaper, the less efficient producer here should be compelled to find some other work which he can do better then what he is doing. This may entail some business failures and some loss of jobs—yes, and some depreciation of real estate in the affected places—but the alternative is failure of economic progress instead of failure of an individual business unit; it is agonizing death on a battle field, instead of losses of an occasional job and the need to move to another; it is destruction of vast areas by rockets and robot bombs the next time instead of an occasional depreciation of a piece of real estate.

The forth great possibility for muffing the promise of the future is excessive governmental intervention into economic and social processes. Such excessive intervention may occur because interest rates are set too low and the government has to try to make up for the deficiencies in capital formation and institutional function. It may occur because production and employment are impaired by "asking too much", and the government attempts to make up the deficit of production and employment. It may be entailed by an over-emphasis on nationalism with the resulting necessity for this nation to live as an armed camp. Or it may occur because we try to turn over responsibilties and obligations to the government instead of being sufficiently enterprising to find new ways to do new things and to solve new problems in a changing world. But excessive government intervention, however brought about, will in time impair technology and stop progress; it can put us all in subsidized housing instead of the promised miracle housing of the future.

THE VETERAN'S GUIDE

MBA has distributed thousands of copies of The Veteran's Guide to members who, in turn, are accumulating some good will from potential borrowers by putting this booklet into the hands of veterans. We can supply you at 10¢ each.

A Better Analysis of Capitalization Rates Will Mean Making Sounder Mortgage Loans

Here is another in the series of Appraisal Briefs being published by the Chicago MBA advocating "better loans through better appraisals." Others will follow.

THE three basic approaches generally used by appraisers as a guide to the final estimate of value are: the Physical, the Comparative and the Economic.

The *economic approach* is of greatest significance in the appraisal of investment property, and the most important of the component elements in this approach are:

1. Estimate of reasonable net income expectancy.
2. Duration of the above income stream (future useful life).
3. Capitalization *rate* as well as *method* used.

The capitalization rate may be defined as the rate of return that a prudent investor would realize from the ownership of an investment property, were the property to be owned *free and clear* of all encumbrances.

The most commonly accepted "build-up" for the estimation of the warranted capitalization rate to be used is the total of:

1. Base rate (such as rate of long-term U. S. government bonds—2 to 2½ per cent).
2. Rate for non-liquidity (½ to 2½ per cent).
3. Rate for management service (½ to 1½ per cent.)
4. Rate for risk (2 to 5 per cent).

However, most properties are not purchased free and clear of all encumbrances, but rather with the aid of mortgage financing. The determining factor governing most sales is the *estimated return on equity invested.* In fact, mortgage financing acts as the catalyst in most real estate transactions.

Since the average investor is primarily concerned with the return on equity, rather than with the return on the full, unencumbered value of the realty, the elements of greatest significance to him are:

1. The maximum ratio of mortgage obtainable to value ($\frac{M}{V}$)
2. The annual required interest and principal payment on the mortgage (P).
3. The expected rate of return on equity (r).

The first two items in reality represent the mortgagee's point of view, while the third item represents the point of view of the buying public.

The investor generally assumes, in his estimate of return on equity, that the portion of the total payment on the mortgage applicable on account of principal more than offsets future depreciation. This reasoning is practical since he will receive the increased income only after the mortgage is paid off.

The appraiser's job in estimating capitalization rates resolves itself into the interpretation of the expected return on equity to the return on the full value of the real estate—since all valuations must be predicated on the assumption that the property is held free and clear of all encumbrances.

This relationship may be expressed as follows:

Capitalization Rate$=(^{M})P+r(1-$

Example:

Assume: Mortgage to value 60%
Mortgage Payments 8%
Return on Equity...... 6%

Capitalization Rate
$=.60\times.08+.06\times.40$
$=.48+.024=.072$ or 7.2%

Greater attention to the analysis of capitalization rates as well as the process of capitalization used on income property will lead to better loans.

QUESTIONNAIRE

FHA approved mortgagees who have not returned the recent questionnaire sent by the Research Department are urged to do so—properly filled out, of course. The data is now being compiled and will be available soon.

Chapters

Guy T. O. Hollyday, chairman of the MBA's FHA committee, arranged a luncheon for **President Mahan** at Hotel Southern in Baltimore on May 19 which was attended by members of the **Baltimore MBA** . . . President Mahan was in the East attending the meeting of the National Public Housing Conference where he represented the Association. . . .

The Minneapolis MBA is having a good year under the direction of **President Fred L. Chapman.** For the May meeting **Chairman Burch Bell** and his G. I. Committee had top officials from the Veterans Administration there to explain the Act and help put on one of the best chapter programs we've heard about in a long time. It was an actual interview between a mortgage man and a veteran and everyone attending had the forms so they could follow the interview and fill them out as reference guides for the future. **James Hiner** of the VA acted as the veteran and **Ray Cleveland,** who made the first G. I. Loan in Minneapolis, did the interviewing.

Following that, the priority application was taken up with **Robert F. Brown** of FHA assisting. Then the loan guarantee form, the closing statement and the application followed by questions. After that the meeting went into 505 procedure with FHA men explaining what is required followed by a further explanation by the VA attorney, **Robert Vehram.**

The meeting started at 6:15 and members were expected to have had their dinner before they got there. President Chapman reported that it was one of the Chapter's most successful meetings, and a good plan to use to get over the complicated G. I. procedure. He suggests that all employees in loan offices be invited.

More than a hundred attended **Chicago MBA's** May appraisal meeting where **Joseph T. Nelson** of FHA's architectural department discussed "Construction Cost Trends since 1941."

MORTGAGE MAN'S NOTEBOOK

Sees a farmer-owned Land Bank system

The house has approved the Federal Land Bank and Commissioner Loan Extension Bill with the provision for repaying $50 million of its capital to the Treasury, there to be held in a revolving fund. The bill must still pass the Senate.

The measure provides that the Land Banks may make 4 per cent loans up to 65 per cent of the normal value of farms and buildings, whereas such loans now average about 43 per cent.

It also authorizes the banks to purchase loans heretofore made by the Federal Farm Mortgage Corp., known as "commissioner loans." These loans were allowed up to 75 per cent of value.

The legislation is designated to liquidate the commissioner-loans program by July 1, 1946. It provides no further Government appropriations under this program and maintains the 5 per cent interest rate on loans.

Representative Stephen Pace of Georgia, said the legislation would soon make the Land Bank system "farmer-owned and farmer-controlled."

Average VA loan is now around $1,607

Time was when the Veterans Administration was one of the government's most respected agencies, one above the criticism of congressmen not averse to saying what they thought about the operations of other agencies.

What a change in a few months! Today the VA is coming in for a bigger share of criticism than almost any agency has had to take in a decade. Scores of organizations have raised loud and angry voices against the lending sections of the Servicemen's Readjustment Act and it seems inevitable that nothing short of drastic changes in the Act will satisfy groups like the Veterans of Foreign Wars and the American Legion. The most telling criticism of course is coming from critics of veterans hospitals. *The Mortgage Banker* isn't qualified to comment one way or the other on these charges other than to say if the current magazine articles reflect existing conditions you can be sure there will be some changes made in this direction.

Latest report of the VA shows that, up to May 12, a total of 6,697 loans had been approved, of which 6,225 were guarantees on home loans, 137 on farms and 335 on business enterprises.

The average loan guarantee was in the sum of $1,607.

Pending are 1,227 applications—1,042 for home, 88 for farm and 97 for business.

The Legion has just concluded a meeting of real estate, business and financial leaders in an effort to determine what can be done to stimulate G. I. lending. H. Loy Anderson, associate general counsel, and W. L. King, chairman of the federal legislative committee, represented MBA. We are awaiting a final report of decisions made at the meeting.

Suggests a new Title 7 to National Housing Act

And speaking of possible changes in the Act, the Home Builders have some pretty definite ideas along these lines. They would like to stimulate home building by writing into the National Housing Act a new Title 7.

It would replace Title 6, designed solely for war homes, and now becoming obsolete as need for war workers' dwellings disappears.

"This new title 7 would enable the veteran to purchase a new home at current cost," the Home Builders say. "It would enable the builder on definite commitments to have a supply of such houses ready for the veteran upon his return, built not to individual contract in a tedious and costly operation, but built efficiently with all the aids and improvements in material and technique that we can develop.

"The reasonable normal value clause of the GI bill which leaves so much to the caprice of an administrator would be eliminated, and a special insuring fund could be allowed to insure not only the principal and interest of the first loan to the lender, but to insure the veteran himself against sharp or unfair loss caused by post-war deflation of prices. Sufficient protection could be written into the law without nullifying it."

The supply of houses developed under this system would not only insure jobs and bring prosperity to the construction industry, but it would cure overcrowding of cities and go a long way to cure the problem of blight and slums which is caused primarily by lack of homes, the Builders' contend.

Reasonable, normal value . . . what is it?

Whether the "reasonable normal value" obstacle has been the chief reason for the lag in G. I. home loans cannot be answered with any assurance of being right but that it has been a big one no one doubts. What is *reasonable normal value?* Recently we quoted one of the best-known real estate economists in the country who said there isn't any such thing and defied anyone to define it.

The Society of Residential Appraisers has come forward with an interpretation of the phrase which, as their officers say, "reflects the practical approach of appraisal leaders in their field work."

This seems to be the meat of their conclusions—and if you would like the four-page pamphlet giving the full interpretation, we'll send it to you. The meat, as we got it, is:

"Reasonable normal value may or may not coincide with the all-cash price currently obtainable. It will not so coincide if demand factors far outweigh supply factors. *Immediate* supply and demand factors enter into market *price*. On the other hand, *value* has a *longer term* concept and gives expression to expected future price changes (whether they be upward or downward) which will accompany a restoration of an approximate balance between supply and demand factors.

"Consistent with accepted valuation principles, 'reasonable normal value' may be lower than but never higher than

(Continued next page)

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the estimated cost of reproducing the property new at the time of the appraisal. It will be lower than reproduction cost new if depreciation or obsolescence have occurred. 'Reasonable normal value' contemplates *no* premium above the replacement cost of the property."

Frank Wilkinson backs urban redevelopment

State Senator Frank L. Wilkinson of Kansas City, a member of the MBA board of governors, has introduced a bill in his state's legislature aimed at attracting private capital to the rebuilding of blighted urban areas.

Limited dividend corporations will be organized to acquire properties to be redeveloped, using the power of eminent domain if necessary. Approval of all details of proposed housing projects by the city council and the city plan commission will be required. Dividends will be limited to eight per cent. The tax valuation of the new housing units would be "frozen" for ten years at the amount of the assessment of the property when acquired prior to redevelopment. For fifteen years thereafter the tax valuation would be one-half the actual value of the land and impovements.

Why not invite these companies to meetings?

Paul Minter of the Cleveland MBA not long ago was telling us of a recent chapter meeting where members heard representatives of the Minneapolis-Honeywell Regulator Company speak on the progress and work of its Moduflow division. This large company is doing some excellent work in planning the postwar home and making it a far more attractive place than the home of today. It is also preparing a talking slide film on heating and air conditioning to be ready about August 1 which, from the description given us, sounds like something that mortgage men and as well as those planning a postwar home will find of great value.

It occurred to us that probably other chapters would like to hear this company's story and see these films. And it also occurs to us that undoubtedly there are many other large companies in fields related to home building which would welcome an opportunity to appear before MBA chapters and tell what they are doing. It's an idea to consider; chapters interested in the Moduflow story should write the headquarters office for further details.

Still time to get in the MBA Purdue Seminar

The ethusiasm with which MBA members have approved our two educational courses this year has led the national office to begin at once to make preliminary plans for similar courses next year. The present expectation is that they will be broadened to include other schools.

By the time this issue appears, the Conference on Urban Mortgage Lending at New York University June 4 to 8 will be well underway. Attendance has been limited to 60 and reservations far exceeded that number. Selection was a difficult matter. Practically all who are attending are from the New York metropolitan area.

Plans are being discussed for publishing the proceeds of the Conference and an announcement will be made soon.

Registrations for the Mortgage Bankers Farm Seminar at Purdue University include:

Ralph C. Limber, National Life Insurance Co., Montpelier, Vt.; Lester B. Foreman, Business Men's Assurance Co., Kansas City, Mo; B. G. DeWeese, The Union Central Life Insurance Co., Cincinnati, Ohio; O. C. Lehman, Lehman Insurance Agency, Payne, Ohio; and J. F. Hull, Federal Land Bank of Louisville, Kentucky;

Lawrence G. Pfefferkorn, Winston-Salem Bond & Mtge., N. C.; D. J. Hogan, Metropolitan Life Insurance Co., Peoria, Ill.; 2 registrants from the First National Bank of Chgo., Ill.; Robert B. Howe, Mutual Benefit Life Ins. Co., Newark, N. J.; and Lawrence E. DeVore, Mutual Benefit Life Ins. Co., Crawfordsville, Ind.;

Robert H. Pierce, Aetna Life Ins. Co., Hartford, Conn.; Kenneth King, King Mortgage Company, Denver, Colorado; Clayton B. Briggs, Lincoln National Life Ins. Co., Fort Wayne, Ind.; 1 registrant from the Federal Land Bank of Columbia, So. Carolina; Jack J. Rosebrough, Hoosier Farm Bureau Life Ins. Co., Indianapolis; and Henry Nystrom, M. R. Waters & Sons, Minneapolis, Minn.;

A. E. Streitmatter & L. H. Dunbar, Alliance Life Ins. Co., Peoria, Ill.; 2 registrants from the Franklin Life Ins. Co., Springfield, Ill.; John McClean & Harold E. Gabrielson, Guarantee Mutual Life, Omaha, Neb.; D. C. Drake & M. W. Schueler, Prudential Ins. Co. of America, Newark, N. J.; and R. R. Rankin & F. E. Turner, Jr., State Life Ins. Co., Indianapolis, Ind.;

E. R. Cook & Hugh H. Cotner, Pioneer Mortgage Co., Topeka, Kansas; George D. Goodnight, Peoples Life Ins. Co., Frankfort, Ind.; E. D. Schumacher & Karl M. Blanchard, United Service & Research, Memphis; Frank B. Charlton, Bankers Life Company, Des Moines; Frank R. Hodgson, Federal Land Bank of Berkeley, California; and the Federal Land Bank of Springfield, Mass.

Frederick P. Champ, past president of MBA and now director of the U. S. Chamber of Commerce, was one of the principal speakers at the first annual conference of the Utah Home Builders Association in Salt Lake City.

U. S. Housing Now Around $4 Billion

DURING the past few years we have heard about every conceivable argument for and against public housing; now it appears that we may be getting near to the time where the future trend can be more accurately appraised than has been possible at any time in recent years. The legislation which will develop from the Taft hearings may be coming along soon and there are other bills which can be expected which should give us a clearer idea of what to expect in public housing.

In the meantime here is the record: The government's investment in housing has increased from $500,000,000 to about $3,000,000,000 in a little more than four years of war, according to a survey of the growth of public housing between July, 1940, and October, 1944.

During this period private enterprise provided 1,000,000 dwelling units of permanent character for war housing at a cost of about $4,000,000,000. The federal total is more than 800,000 dwelling units.

More than half the public war housing program was concentrated in eight states. On the basis of dwelling units assigned, California received 17 per cent, Washington 7 per cent, Texas 6, Pennsylvania and Ohio 5 each and Michigan and New York 4 per cent.

More than half, or 51.1 per cent of the dwelling units constructed or converted by federal and local housing authorities are officially classed as "temporary."

In addition, 78,000 units are classed as "demountable" 81,000 as "stopgap" and 48,000 as HOLC conversions, leaving only 198,000 units, or 23.9 per cent as permanent.

Some of the sharpest arguments we've seen recently indicting the public housers were voiced by Arthur W. Binns.

"I have no quarrel with a man who believes that we should nationalize all property, life insurance, carriers, utilities and housing, save only that I disagree with him." he said.

"The public housers should say frankly that they believe in the socialization of property and be willing to fight it out on those terms.

"Perhaps they are unwilling to bring their true motives out in the open, or perhaps some of them are sincerely unmindful of the dynamite with which they are playing.

These adherents to a dangerous cause refuse to recognize one principal fact in the whole discussion of public versus private housing, and that is this:

"The government cannot do just a little housing.

"Government invasion of the field of housing has already destroyed available money for, perhaps, one third of the total housing field.

"There is simply no such thing as being 'just a little pregnant' when it comes to public housing. Either the movement is going to be born or it isn't. And if it is going to be born, long before it has absorbed one-third of America's housing, it will have threatened the second, third and, by that time, the whole profit-motive, free enterprise system will have perished.

"And in presenting the cause of public housing to the electorate, let us appraise its worth, unhampered by misdirected sentiment and incomplete bookkeeping.

"No one yet has been able to establish that government housing is lower cost housing than the same type of shelter built by private enterprise.

"No one yet has been able to claim successfully that the true rent of public housing units is lower than those built by private enterprise, when tenant payment is properly augmented by federal subsidy, administration costs, and taxes.

"No one yet has been able to prove that government housing actually increases the supply of housing for the underprivileged. For every one unit provided by the government, private capital fails to build many times that one unit. The more public housing we have, the less good housing we will have in total.

"If permanently federally subsidized housing starts at all, it means that the field in which it starts must perforce be abandoned by private enterprise. In the last few months, I have tried all over the country to find sources of financing for postwar private low-cost housing, but at every point the answer is 'No.' The bankers say, 'Oh, yes, it is a grand field, a sound field, and we would like to be in it but the government has earmarked this for its own, therefore we will have none of it.' "

MBA Insignia

Why not use the MBA insignia on your letterheads and other printed pieces? Your Association has consistently advocated using our emblem but we think it is more important now than ever before. MBA membership has become a badge of distinction in mortgage banking. The rapid increase in membership in recent years has been such that those who deal with mortgage men have come to appreciate the fact that just about everyone active in mortgage lending is a MBA member. Why not take advantage of the obvious benefits of membership by using the insignia?

The cuts shown here are available at the national office for $1 each, mounted on wood and ready for any printing or advertising use. Order by number. Note that one has the "Member of" phrase while the others are merely the insignia alone.

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No. 3

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